

City of Detroit

OFFICE OF THE AUDITOR GENERAL



**Audit of the
Detroit Water and Sewerage Department
Imprest Cash**

July 2006 – September 2008



City of Detroit
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AUDITOR GENERAL

MEMORANDUM

DATE: April 16, 2009

TO: Honorable City Council

FROM: Loren E. Monroe, CPA *Loren E Monroe*
Auditor General

RE: Audit of the Detroit Water and Sewerage Department's Imprest Cash

CC: Mayor Kenneth V. Cockrel, Jr.
Pamela Turner, Interim Director – Detroit Water and Sewerage Department
Joseph L. Harris, Chief Financial Officer
Board of Water Commissioners

Attached for your review is our report on the audit of the Detroit Water and Sewerage Department's Imprest Cash. This report contains our audit purpose, scope, objectives, methodology and conclusions; background; our audit findings and recommendations; and the responses from the Detroit Water and Sewerage Department and the Finance Department.

Responsibility for the installation and maintenance of a system of internal control that minimizes errors and provides reasonable safeguards rests entirely with the Detroit Water and Sewerage Department and the Finance Department. Responsibility for monitoring the implementation of recommendations is set forth in section 4-205 of the City Charter which states in part:

Recommendations, which are not put into effect by the agency, shall be reviewed by the Finance Director who shall advise the Auditor General and the City Council of the action being taken with respect to the recommendations.

We would like to thank the Detroit Water and Sewerage Department and the Finance Department for their cooperation and assistance extended to us during this audit.

Copies of all of the Office of the Auditor General reports can be found on our website at www.ci.detroit.mi.us/legislature/CharterAppointments/AuditorGeneral.

Audit of the Detroit Water and Sewerage Department's Imprest Cash

July 2006 – September 2008

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AUDIT PURPOSE, SCOPE, OBJECTIVES, METHODOLOGY AND CONCLUSIONS

AUDIT PURPOSE

The audit of the Detroit Water and Sewerage Department (DWSD) Imprest Cash was performed in accordance with the Office of the Auditor General's (OAG) Charter mandate to audit the financial transactions of all City agencies at least once every two years and report findings and recommendations to the City Council and the Mayor.

AUDIT SCOPE

The scope of this audit was limited to a review of the imprest cash funds of DWSD for the period July 1, 2006 to September 30, 2008. DWSD has sixteen imprest cash funds.

Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States, except for the completion of an external peer review of the Office of the Auditor General within the last three years.

AUDIT OBJECTIVES

The overall audit objectives were:

- To determine whether the actual amount of the imprest cash fund is in agreement with the authorized amount.
- To determine whether imprest cash transactions are properly authorized.
- To determine if imprest cash is safeguarded against loss, theft, and unauthorized or improper use.
- To determine if DWSD is in compliance with the Finance Department's Imprest Cash Manual, any relevant Finance Directives and any other relevant City policies and procedures.
- To conduct a follow-up review of the imprest cash-related audit findings from the prior audit report.

AUDIT METHODOLOGY

To accomplish our audit objectives, our audit work included:

- Review of the prior audit report of the Detroit Water and Sewerage Department dated July 6, 1998.
- Interviews with staff of DWSD, and documentation of the process for imprest cash transactions.
- Review of internal controls related to topics included in the City's Imprest Cash Manual, along with relevant Finance Directives, and other relevant City policies and procedures.
- Review of imprest cash documents from DWSD and from the Finance Department.

- Unannounced cash counts of imprest cash funds.
- Determination of the status of the audit findings and recommendations related to imprest cash included in the prior audit report.
- Other audit procedures, that we considered necessary to achieve our audit objectives.

CONCLUSIONS

As a result of our audit we have concluded that:

- Actual amounts of the imprest cash funds did not agree with the amounts listed in the Finance Department as the authorized amounts for twelve of the imprest cash funds. The OAG's cash counts revealed overages totaling \$1,330.60 and shortages totaling \$5,242.71.
- DWSD did not properly authorize transactions for eight imprest cash funds.
- Imprest cash funds were not adequately safeguarded at seven imprest cash funds.
- DWSD did not comply with the Finance Department's Imprest Cash Manual, relevant Finance Directives, and relevant City policies and procedures.
- Prior audit findings have not been resolved.

BACKGROUND

The mission of the Detroit Water and Sewerage Department is to exceed their customers' expectations through the innovative treatment and transmission of water and wastewater, and the provision of services that promote healthy communities and economic growth.

DWSD is the third largest water and sewer utility in the United States:

- The Water Supply System's primary role is to provide potable water for over four million residents in Southeastern Michigan. The water provided is in conformance with applicable standards as required by Michigan's Safe Drinking Water Act.
- The Sewerage Disposal System's primary role is to convey and treat the sanitary and combined sewage collected throughout the service area so that the public health is protected and the treated effluent discharged to the Detroit River is in compliance with the limits established by applicable laws, rules, and regulations regarding wastewater, air pollution and solid waste disposal. This facility serves approximately 2.9 million people in Detroit and 77 other communities in Southeastern Michigan.

DWSD is an enterprise agency. A seven-member Board of Water Commissioners whose members are appointed by the Mayor governs the Department. Four commissioners, by City Charter requirements, represent Detroit residents. Three remaining commissioners represent suburban wholesale customers with appointees from Wayne, Oakland and Macomb counties.

Victor Mercado was appointed Director of DWSD in June 2002. Mr. Mercado resigned in June 2008. From mid-July 2008 through mid-September 2008, Anthony Adams served as Interim Director. In September 2008, Pamela Turner was appointed Interim Director.

The following table shows the budgeted expenditures, revenues and number of staff for DWSD for the 2006-2007 and 2007-2008 fiscal years.

	Fiscal Year Ended June 30	
	2007	2008
Budgeted Expenditures		
Water	\$ 711,897,936	\$ 334,230,623
Sewerage	766,749,616	413,415,888
Budgeted Revenues		
Water	\$ 711,897,936	\$ 334,230,623
Sewerage	766,749,616	413,415,888
Staffing Levels		
Water	1,900	1,919
Sewerage	1,176	1,176

DWSD has sixteen imprest cash funds located at twelve facilities. The following table provides details of DWSD's imprest cash funds:

FACILITY	CITY	IMPREST CASH FUND LOCATION	AMOUNT
Wastewater Treatment Plant	Detroit	Wastewater Treatment Plant	\$ 5,500
Livernois Center	Detroit	Industrial Waste Control	1,200
Total Sewerage			\$ 6,700

DWSD Main Office Building	Detroit	Main Office Bank Account	\$ 12,000
		Customer Refund Account	10,000
Central Service Facility	Detroit	Repair & Maintenance	5,000
		Mechanical Maintenance	1,500
		Materials Management	750
		Meter Operations	700
Westside Service Center	Detroit	Westside Service Center	1,700
Eastside Service Center	Detroit	Eastside Service Center	1,500
Field Services Building	Detroit	Field Engineering	1,000
Southwest Water Plant	Allen Park	Southwest Water Plant	800
Water Works Park Plant	Detroit	Water Works Park	750
Springwells Water Plant	Dearborn	Springwells	750
Northeast Water Plant	Detroit	Northeast Water Plant	750
Lake Huron Water Plant	Fort Gratiot	Lake Huron Water Plant	750
Total Water			\$ 37,950

Grand Total Detroit Water and Sewerage Imprest Cash Funds **\$44,650**

STATUS OF PRIOR AUDIT FINDINGS

The prior audit of the Detroit Water and Sewerage Department issued July 6, 1998 by the Office of the Auditor General included the following audit findings related to imprest cash:

1. DWSD's imprest cash fund does not agree with the authorized amount recorded in the Finance Department's Imprest Cash Fund Detail Ledger.
This finding has not been resolved and is discussed in Finding 1 on page 6 of this report.
2. DWSD is not stopping payment on imprest cash checking account checks which have been outstanding more than six months.
This finding has not been resolved and is discussed in Findings 1 and 3 on pages 6 and 11 respectively, of this report.

AUDIT FINDINGS AND RECOMMENDATIONS

1. Non-Compliance with the Imprest Cash Manual and Finance Department Procedure

The Detroit Water and Sewerage Department (DWSD) did not adhere to policies and procedures stated in the Imprest Cash Manual. These included the following:

- The actual amount in the imprest cash funds did not agree with the authorized amounts. The Office of Auditor General's (OAG) unannounced cash counts of the imprest cash funds revealed variances in twelve imprest cash funds. The cash counts revealed overages totaling \$1,330.60 and shortages totaling \$5,242.71.
- The cash on hand was not fixed or documented in eleven imprest cash funds.
- None of the imprest cash funds documented an alternate custodian to the Finance Department.
- In seven imprest cash funds, employees making purchases did not sign the invoice or indicate the reason for the purchase.
- Three bids were not obtained for purchases of items costing between \$400 and \$2,000 in two imprest cash funds.
- \$51,049.83 from other departmental sources was deposited into the Main Office Bank Account Imprest Cash for non-imprest cash expenditures. (See Finding 4.)
- Stop payments were not placed on outstanding checks over six months old and they were not added back to the checkbook balance in five imprest cash funds.
- Purchases of recurring items were continually made from the Main Office Bank Account Imprest Cash Fund.
- Checks were inappropriately made payable to "Cash" to replenish petty cash in four imprest cash funds.
- Eight imprest cash funds did not retain audit reports and bank statements.
- Eight imprest cash funds did not inform the Finance Department of changes in their imprest cash custodians or check signers.
- Two imprest cash funds had no cash log or other permanent log to record cash expenditures at the time they were made.
- Reimbursement check requests were not assigned to the correct custodian in two imprest cash funds.
- Seven imprest cash funds did not submit the invoices for reimbursement within thirty days from the end of the month in which the original purchase was made.

A detailed schedule of the Imprest Cash Manual and Finance Department Procedure Findings by imprest cash fund location is provided as APPENDIX A.

The Imprest Cash Manual requires:

- At all times the imprest cash fund must agree with the total amount authorized. Shortages in imprest cash funds are to be reported immediately to the Mayor's Office, the Finance Director and the Auditor General. Overages in imprest cash funds are to be deposited into a Treasury checking account.
- If a portion of the imprest cash fund is comprised of a cash supply, the custodian of the fund must keep a written statement indicating the amount of cash given out.
- Alternate custodians must be designated.
- All documents supporting imprest cash purchases must show the date paid, be signed by the employee making the purchase, and clearly indicate the purpose of function of the purchase.
- For purchases between \$400 and \$2,000, a minimum of three bids is required.
- Imprest cash funds must not be commingled with private funds or with other departmental funds.
- Departments place stop payment on checks that have been outstanding for more than six months; add the amount back to the checkbook balance, and remove from future reconciliations.
- The imprest cash checking account should not be used for recurring expenditures.
- Imprest cash checks issued to reimburse the cash portion of the imprest cash fund should be made payable to the imprest cash custodian and not made payable to "Cash".
- At a minimum, quarterly audits of the imprest cash fund must be performed and written records must be retained until the next audit by the Auditor General.
- Requests for changes of authorized signatories must be made in writing to the Finance Department - Project Administration.
- A permanent log must be maintained into which all cash (not checks) expenditures are recorded at the time they are made. Entries should also include cash advances given employees being sent out to purchase supplies for the City. The log should provide columns showing date, payee, item and amount.
- Check Requisitions are to be made payable to the custodian of an imprest cash fund only.

The Finance Department procedure requires that all imprest cash reimbursement requests must be made within thirty days from the end of the month in which the original purchase was made.

Imprest cash funds are susceptible to misuse, theft, and other loss. Failure to follow the controls of the Imprest Cash Manual increases the risk that discrepancies, loss, or misuse of imprest cash monies will not be identified and resolved promptly.

According to DWSD staff the above-mentioned conditions exist because:

- They had never received a copy of the Imprest Cash Manual and were not knowledgeable of its requirements.
- They were not properly trained to handle imprest cash funds and transactions.
- One imprest cash fund was inactive for two years and some receipts were lost.
- Changes to custodians, adding alternate custodians, and/or changes to check signers could not be completed due to staffing issues.
- Recurring purchases were made to meet the immediate needs of one imprest cash fund location.
- They were not aware of the Finance Department procedure pertaining to the thirty-day rule for submission of invoices and receipts.
- In one location, a former assistant director held the reimbursement requests and did not sign them on a timely basis.

Recommendation

We recommend that DWSD comply with the Finance Department's Imprest Cash Manual and the Finance Department procedure.

2. Lack of Appropriate Internal Controls

The DWSD imprest funds have the following internal control weaknesses:

- Management approved an improper expenditure of \$1,400 of imprest cash funds to bail out DWSD's city-owned truck seized by Wayne County Sheriffs in a police sting. The Repair and Maintenance/Central Yard employee did not reimburse the \$1,400.
- Thirteen imprest cash funds did not have appropriate segregation of duties. In most cases, the custodian or check signer could write and sign checks, had access to the cash box, checkbook, original invoices and receipts.
- None of the imprest cash fund custodians had a copy of the most recent Finance Imprest Cash Manual. In addition, no training was provided for employees handling imprest cash.
- Seven DWSD imprest cash funds did not adequately safeguard its cash, checks and/or checkbook.

A detailed schedule of the Lack of Appropriate Internal Control Findings by imprest cash fund location is provided as APPENDIX B.

Primary internal controls include written policies and procedures, adequate records, appropriate management approvals, segregation of duties, reconciliation of accounting records, safeguarding of assets, and overall management oversight.

- Internal control comprises the plan of organization and all of the coordinate methods and measures adopted within a business to safeguard its assets, promote operational efficiency, and encourage adherence to prescribed managerial policies.
- A primary internal control is the appropriate segregation of responsibilities or duties. The four general categories of responsibility are: custody, authorization, record keeping and reconciliation. Ideally, a different employee should perform each of these four major functions.
- Policies should be clearly stated in writing, systematically organized into handbooks, manuals and communicated to all officials and appropriate employees of the organization. Employees should be given training and refresher courses that provide the opportunity for improvement and keep them informed of new policies and procedures.
- All imprest cash funds must be kept under lock in safety available storage.

The failure to maintain adequate control over imprest cash funds can result in multiple abuses, including theft or misappropriation of the funds, and inaccurate financial records.

DWSD staff indicated the reasons for a lack of appropriate internal controls include:

- Management chose to override the Imprest Cash Manual to avoid the auction of the city-owned truck.

- Lack of sufficient personnel to segregate duties and responsibilities.
- In some locations, the staff felt that requiring two signatures on checks was sufficient segregation of duties.
- A staff person thought the cash was safe because it was in a lock-box.

Recommendations

We recommend that DWSD:

- Require the employee involved in the police sting to reimburse the City the cost of retrieving the impounded vehicle.
- Implement internal controls, which include the segregation of incompatible duties and the reasonable assurance the assets are adequately safeguarded.
- Provide Imprest Cash Manuals and training for employees handling imprest cash.

3. DWSD's Accounting Division Did Not Fully Comply with the Imprest Cash Manual and Finance Department Procedures

DWSD's Accounting Division did not fully comply with the policies and procedures in the Imprest Cash Manual and Finance Procedures, which significantly weakened controls over the imprest cash process. Our audit revealed:

- Monthly bank reconciliations were not performed for fourteen of the imprest cash funds, and the Accounting Division did not conduct periodic independent audits. The majority (91%) of the imprest cash fund reconciliations for the Main Office Bank Account were incomplete, inaccurate, missing, or not completed on a timely basis.
- Both the Main Office Bank Account and the Customer Refund Account imprest cash fund reconciliations included old, outstanding reconciling items that were not cleared. Some un-reimbursed expenditures dated back to fiscal year 2003, and outstanding checks dated back to fiscal year 2004.
- The Customer Refund imprest cash fund has two bank accounts. One account has been inactive since December 2006 and has a balance of \$2,944.61. This account should have been closed in a timely manner.
- Overages and shortages in the imprest cash funds were not resolved. For fiscal year ending 2008, the Accounting Division reported overages or shortages in twelve imprest cash funds.
- The Accounting Division authorized \$4,000 in wire transfers to the Main Office Bank Account for non-reimbursable expenditures. (See Audit Finding 4.)
- The Accounting Division, Accounts Payable Section approved reimbursement requests that contained receipts that were not signed and/or dated by the employee making the purchase, and/or the purpose was not clearly indicated on the receipt.
- The Accounts Payable Section also approved imprest cash reimbursement requests that were after thirty-days from the end of the month in which the original purchase was made.
- Bank reconciliations were not submitted to the Finance Department - Treasury Division within 45 days after the bank statement date.
- The Accounting Division did not comply with the Finance Department's year-end closing procedures. The actual cash on hand recorded on the June 30, 2008 year-end closing exhibit is incorrect.

A detailed schedule of Non-Compliance of DWSD's Accounting Division with the Imprest Cash Manual and Finance Department Procedures by imprest cash fund location is provided as APPENDIX C.

The Imprest Cash Manual requires:

- Periodic audits of imprest cash funds must be conducted by supervisors or accounting personnel other than the person handling the fund. Further, all checking accounts must be reconciled with the bank statements monthly.
- At all times, the imprest cash fund must agree with the total amount authorized and shortages reported to the Finance Department, the Auditor General and the Mayor's Office. Overages in imprest cash funds are to be deposited into a Treasury checking account.
- Imprest cash funds must not be commingled with private funds or with other departmental funds.
- In processing un-cashed imprest cash account checks, all Non-general departments will place a stop payment on checks that have been outstanding for more than six months. Further, the amount will be added back to the checkbook balance, removed from future reconciliations, placed on the unclaimed roll and the money transferred to the Finance Department-Treasury Division.
- All documents supporting imprest cash purchases must show the date paid, be signed by the employee making the purchase, and clearly indicate the purpose or function of the purchase. If a cash register receipt is received, the required information should be recorded on the back of the tape or on an attached piece of paper. These documents must be attached to the check requisition used to reimburse the imprest cash fund.

Year-End Closing Instructions require that the amount reported in the Imprest Cash Fund Report be equal to all cash on hand and in the bank at the end of the fiscal year.

The Finance Department requires that all imprest cash reimbursement requests be made within thirty-days from the end of the month in which the original purchase was made.

Finance Department procedures also require that all agencies that have bank accounts tied directly to their funds must complete monthly bank reconciliations and submit them to the Treasury Division no later than 45 days after the bank statement date.

Failure to maintain proper accounting controls can result in imprest cash funds being susceptible to risk of misuse, theft, and other losses. Further, neglecting to maintain proper accounting records may lead to errors in the City's Financial Statements and allows for misuse or abuse to go undetected.

DWSD Accounting staff cited the following reasons for the above-mentioned conditions:

- Lack of City-owned vehicles for transportation and availability of staff prevented execution of required reconciliations and audits.
- Discrepancies were not resolved pending further direction from management.
- Errors in the reconciliations were attributed to clerical mistakes.
- The bank account was not closed because the manager was on a leave of absence.
- According to the Accounts Payable Section, staff lacked formal training on finance/accounts payable responsibilities related to imprest cash funds.
- Staff did not receive a copy of the Imprest Cash Manual.
- Management explained that staffing and resource issues are the reasons that monthly bank reconciliations are not being submitted to Treasury within the prescribed 45 days.

Recommendations

We recommend that DWSD Accounting:

- Comply with the City's Imprest Cash Manual and Finance Department procedures.
- Prepare accurate and timely bank reconciliations and retain backup files.
- Provide training for Accounts Payable Section employees handling imprest cash.

4. The Size and Use of the Main Office Imprest Cash Fund is not Appropriate

The size and use of the Main Office Bank Account (MOB) Imprest Cash Fund of \$12,000 is inappropriate.

- OAG's unannounced cash count of the MOB Imprest Cash Fund documented a shortage of \$2,973.53.
- Several deposits from other departmental sources totaling \$51,049.83 were made into imprest cash to facilitate non-imprest cash expenditures. Included in the above amount was \$44,900 (detailed below) and \$4,000 in wire transfer deposits used to expedite customer returns or refunds.
- The fund was used to purchase routine office supplies and paper. In some cases the amount of the purchase was greater than \$400 and three bids were not obtained for the purchase.
- Over the 24-month period from July 2006 to June 2008, the average deposit and the average checks written was \$1,000 per month.
- The fund was used to facilitate payment of food and refreshments of \$44,900 for DWSD's annual retirement dinners.

The Imprest Cash Manual requires:

- At all times, the imprest cash fund must agree with the total amount authorized, and shortages reported to the Finance Department, the Auditor General and the Mayor's Office. Overages in imprest cash funds are to be deposited into a Treasury checking account.
- Imprest cash funds must not be commingled with private funds or with other departmental funds.
- Items that are normally stocked, or frequently purchased items must be obtained through the issuance of a purchase requisition.
- The amount of the imprest cash fund should be sufficient to cover transactions properly chargeable to Imprest Cash which are those infrequently purchased items or emergency purchases.

The Finance Department directive for the purchase of food and refreshments state that the Finance Department will only approve food for a City function if the expenditure is approved by law and it is for public or governmental purposes that serve the entire community and not the welfare of a specific individual or class of persons.

Failure to uniformly enforce procedures or document the reasons for exceptions reduces the effectiveness of the procedures and the concurrent controls it mandates. It also creates an impression that City procedures are not important and can therefore be deliberately or inadvertently ignored.

DWSD staff gave the following reasons for the above-mentioned conditions:

- The checkbook balance was inaccurate because a former clerk did not keep a running balance. The checkbook balance was never reviewed and corrected.

- In some cases, the custodian processed improper transactions based on directives from Management.
- The custodian did not have a copy of the Imprest Cash Manual leading to a lack of knowledge on the imprest cash process.
- Routine office supplies were ordered through the imprest cash process to expedite the purchase.

Recommendations

We recommend that DWSD:

- Reduce the amount of the Main Office Bank Account Imprest Cash Fund to a level consistent with monthly activity.
- Conduct a cash count and audit to establish the current fund balance. This must include thorough bank reconciliations, re-calculating the checkbook balance, eliminating all outstanding checks greater than six months old, and eliminating aged non-reimbursed purchases from the reconciliation.
- Handle any resulting overage or shortage according to the guidelines in the Imprest Cash Manual.
- Purchase routine office supplies, including printer paper and ink, through the appropriate purchasing method (i.e. - blanket or standard purchase orders).
- Discontinue wire transfers and deposits of any outside money into the Main Office Bank Account Imprest Cash Fund.
- Discontinue using the Main Office Bank Account Imprest Cash Fund to expedite customer returns or refunds.

OTHER FINDING RELATED TO THE FINANCE DEPARTMENT

1. The Finance Department Did Not Fully Comply With Its Own Policies and Procedures

The Finance Department did not comply with several policies and procedures in the Imprest Cash Manual, Financial Directives and other outlined responsibilities. The following conditions existed:

- The Finance Department approved the fiscal years 2006 and 2007 Detroit Water and Sewerage Department (DWSD) Annual Retirees Events for \$22,000 and \$22,900 respectively, which did not comply with its own directive:
 1. The events served a specific group of people and did not serve a governmental or public purpose.
 2. The cost per person was \$57.25 and \$55.00, which exceeded the maximum dinner limit.
 3. Finance approved the event held on May 10, 2006 based on a request submitted March 7, 2007 (10 months after the event).
 4. Finance approved payment for the 2006 event, even though there was evidence that the event had been paid in full.
- The Finance Department Imprest Cash Fund Detail Report did not reflect the actual authorized amount in three imprest cash funds.
- The Finance Department Imprest Cash Fund Detail Report did not reflect the actual imprest cash custodians in five imprest cash funds.
- The Finance Department records did not reflect the current authorized check signatories in four imprest cash funds. Further, The Finance Department did not have any record of the authorized signatories for the Mechanical Maintenance Imprest Cash Fund.
- The fiscal year 2008 Finance Department Imprest Cash Detail listing did not agree with the General Ledger. The listing did not include the Repair & Maintenance/Central Yard Imprest Cash Fund of \$5,000. In addition, the Westside Service Center's imprest cash fund had a reported "actual" authorized amount of \$1,700 versus the Finance Department record of \$1,500.
- The Finance Department did not follow up on overages and shortages reported in fiscal years 2007 and 2008 Imprest Cash Reports. For fiscal year 2007, overages totaling \$11,986.34 and shortages totaling \$2,469.40 were reported. For fiscal year 2008 overages totaling \$9,202.02 and shortages totaling \$2,328.27 were reported.

A detailed schedule of Other Findings Related to the Finance Department by imprest cash fund location is provided as APPENDIX D.

The Finance Department directive for the purchase of food and refreshments state that:

- The Finance Department will only approve food for a City function if the expenditure is approved by law and it is for public or governmental purposes that serve the entire community and not the welfare of a specific individual or class of persons.
- The cost of dinner is limited to \$23.00 per person.
- The Finance Department will reject authorization requests that are no later than five business days prior to the date for which funds are being requested.

The Imprest Cash Manual requires:

- At all times, the imprest cash fund must agree with the total amount authorized. In addition, good accounting practice is to maintain a total balance in a general ledger account with the exact same amount detailed in a related subsidiary ledger.
- All requests for changes of authorized signatories must be made in writing to the Finance Department - Project Administration, who will work directly with the bank to effect the necessary changes.

Good accounting practice requires that proper records be maintained. The Finance Department is responsible for all financial transactions of the City and should maintain appropriate records. New authorized signature listings are required as a result of the administrative changes that have taken place.

The Finance Department must insure that itself, along with all departments are knowledgeable of and adhere to the policies and procedures in the Finance Directives and the Imprest Cash Manual. The duties of the Finance Department include prescribing the form and manner of keeping accounts in all departments of the City.

Failure of the Finance Department to adhere to its own policies and procedures or document the reasons for exceptions reduces the effectiveness of the procedures and the concurrent controls it mandates. It also creates an impression that City procedures are not important and can therefore be deliberately or inadvertently ignored.

Staff reductions in the Finance Department have resulted in the lack of staff to keep the records correct and to maintain proper controls.

Recommendation

We recommend that the Finance Department adhere to its own policies and procedures.

Overview of Findings

Non-Compliance with the Imprest Cash Manual and Finance Department Procedure

CRITERIA/ LOCATION IMPREST CASH FUND	Cash Count Does Not Agree With Authorized Amount	Did Not Set or Document a Fixed Amount of Cash	Did Not Name Alternate Custodians	Did Not Cancel Receipts or Invoices	Did Not Obtain Three Bids for Purchases >\$400	Commingled Other Departmental Funds	Did Not Clear Outstanding Checks >6 Months Old	Used Imprest Cash for Recurring Purchases	Made Reimbursement Checks Payable to Cash	Did Not Retain Audit Reports	Did Not Notify the Finance Department for Change of Custodian	Did Not Maintain a Cash Log	Reimbursement Check Request Not Made Payable to Custodian	Did Not Comply with the Finance Department Thirty-Day Rule
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)	(M)	(N)
1 INDUSTRIAL WASTE CONTROL	X		X	X						X	X		X	X
2 WASTEWATER TREATMENT PLANT	X	X	X				X			X				
3 MATERIALS MANAGEMENT		X	X	X						X	X	X		X
4 WATER WORKS PARK PLANT	X	X	X				X		X		X			X
5 METER OPERATIONS	X	X	X											
6 CENTRAL YARD/MAINT & REPAIR	X	X	X	X	X				X		X		X	X
7 FIELD ENGINEERING	X		X	X							X			
8 LAKE HURON WATER PLANT	X	X	X								X	X		
9 MECHANICAL MAINTENANCE DIV		X	X	X						X	X			X
10 NORTHEAST WATER PLANT	X	X	X											
11 SOUTHWEST WATER PLANT	X	X	X	X			X		X	X				X
12 SPRINGWELLS		X	X							X	X			
13 EASTSIDE CENTER/CASH RECEIVING			X							X				
14 WESTSIDE CENTER/CASH RECEIVING	X		X							X				
15 CUSTOMER REFUND	X		X				X							
16 MOB /ACCOUNTING CASH RECEIVING	X	X	X	X	X	X	X	X	X					X
Number of funds with infraction	12	11	16	7	2	1	5	1	4	8	8	2	2	7
Percent of funds with infraction	75.0%	68.8%	100.0%	43.8%	12.5%	6.3%	31.3%	6.3%	25.0%	50.0%	50.0%	12.5%	12.5%	43.8%

Tick Mark Legend:

X = Represents a Imprest Cash Manual Finding pertaining to this location's imprest cash fund.

Blank = No finding for this location or Not applicable

CRITERIA:

- (A) At all times the imprest cash fund must agree with the total amount authorized. Shortages in Imprest Cash Funds are to be reported immediately to the Mayor's Office, the Finance Director and the Auditor General. Overages in Imprest Cash Funds are to be deposited into a Treasury checking account.
- (B) If a portion of the Imprest Cash Fund is comprised of a cash supply, the custodian of the fund must keep a written statement indicating the amount of cash given out.
- (C) Alternate custodians must be designated.
- (D) All documents supporting imprest cash purchases must show the date paid, be signed by the employee making the purchase, and clearly indicate the purpose of
- (E) For purchases between \$400 and \$2,000 a minimum of three bids are required
- (F) All imprest cash funds must not be commingled with private funds or with other departmental funds
- (G) The department will stop payment on imprest cash checking account checks which have been outstanding for more than six months. In order to maintain a correct checkbook balance, the amount of the stopped check is to be added to the checkbook balance upon execution of the stop payment order. A notation shall also be made on each corresponding check stub indicating stop payment and date.
- (H) The Imprest Cash checking account should not be used for recurring expenditures.
- (I) Imprest cash checks issued to reimburse the cash portion of the imprest cash fund should be made payable to the imprest cash cashier. Such checks must not be made out to "Cash".
- (J) At a minimum, quarterly audits of the imprest cash fund must be performed and written records must be retained until the next audit by the Auditor General.
- (K) Request for changes of authorized signatories must be made in writing to the Finance Department, Project Administration Team.
- (L) A permanent log must be maintained into which all cash (not check) expenditures are recorded at the time they are made. Entries should also include cash advances given employees being sent out to purchase supplies for the City. The log should provide columns showing date, payee, item and amount.
- (M) Check Requisitions are to be made payable to the custodian of imprest cash only.
- (N) A Finance Department procedure requires that all imprest cash reimbursement request must be made within thirty days from the end of the month in which the original purchase was made.

Overview of Findings
Lack of Appropriate Internal Controls

CRITERIA/ LOCATION IMPREST CASH FUND		Lack of Segregation of Duties (A)	Lack of Policies and Procedures (B)	Did Not Adequately Safeguard Assets (C)	Improper Use of Imprest Cash Funds (D)
1	INDUSTRIAL WASTE CONTROL	X	X	X	
2	WASTEWATER TREATMENT PLANT	X	X	X	
3	MATERIALS MANAGEMENT	X	X		
4	WATER WORKS PARK PLANT	X	X		
5	METER OPERATIONS		X		
6	CENTRAL YARD/MAINT & REPAIR	X	X	X	X
7	FIELD ENGINEERING	X	X	X	
8	LAKE HURON WATER PLANT	X	X		
9	MECHANICAL MAINTENANCE DIV	X	X	X	
10	NORTHEAST WATER PLANT	X	X		
11	SOUTHWEST WATER PLANT	X	X		
12	SPRINGWELLS	X	X		
13	EASTSIDE CENTER/CASH RECEIVING		X		
14	WESTSIDE CENTER/CASH RECEIVING	X	X		
15	CUSTOMER REFUND	X	X	X	
16	MOB /ACCOUNTING CASH RECEIVING		X		
Number of funds with infraction		13	16	7	1
Percent of funds with infraction		81.3%	100.0%	43.8%	6.3%

Tick Mark Legend:

X = Represents a Finance Department Finding pertaining to this location's imprest cash fund.

Blank = No finding for this location or Not applicable

CRITERIA:

- (A)** A primary internal control is the appropriate segregation of responsibilities or duties. The four general categories of responsibility are: custody, authorization, record keeping and reconciliation. Ideally, a different employee should perform each of these four major functions.
- (B)** Policies should be clearly stated in writing, systematically organized into handbooks, manuals and communicated to all officials and appropriate employees of the organization. Employees should be given training and refresher courses that provide the opportunity for improvement and keep them informed of new policies and procedures.
- (C)** All imprest cash funds must be kept under lock in safety available storage.
- (D)** Internal control comprises the plan of organization and all of the coordinate methods and measures adopted within a business to safeguard its assets, promote operational efficiency, and encourage adherence to prescribed managerial policies.

Overview of Findings

Non-Compliance of DWSD Accounting Division

CRITERIA/ LOCATION IMPREST CASH FUND	Internal Control			Imprest Cash Manual			Finance Procedures	
	Did Not Complete Quarterly Audits	Did Not Complete Monthly Bank Recs	Did Not Clear Outstanding Checks >6 months Old	Did Not Clear Overages or Shortages	Commingled Other Departmental Funds	Receipts were Not Signed by Purchaser	Did Not Comply with Finance Dept Thirty-Day Rule	Did Not Submit Monthly Bank Recs to Treasury
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)
1 INDUSTRIAL WASTE CONTROL	X	X		X		X	X	X
2 WASTEWATER TREATMENT PLANT	X	X		X				X
3 MATERIALS MANAGEMENT	X	X				X	X	X
4 WATER WORKS PARK PLANT	X	X		X			X	X
5 METER OPERATIONS	X	X		X				X
6 CENTRAL YARD/MAINT & REPAIR	X	X		X		X	X	X
7 FIELD ENGINEERING	X	X		X		X		X
8 LAKE HURON WATER PLANT	X	X						X
9 MECHANICAL MAINTENANCE DIV	X	X				X	X	X
10 NORTHEAST WATER PLANT	X	X		X				X
11 SOUTHWEST WATER PLANT	X	X		X		X	X	X
12 SPRINGWELLS	X	X						X
13 EASTSIDE CENTER/CASH RECEIVING	X	X		X				X
14 WESTSIDE CENTER/CASH RECEIVING	X	X		X				X
15 CUSTOMER REFUND			X	X				X
16 MOB /ACCOUNTING CASH RECEIVING			X	X	X	X	X	X
Number of funds with infraction	14	14	2	12	1	7	7	16
Percent of funds with infraction	87.5%	87.5%	12.5%	75.0%	6.3%	43.8%	43.8%	100.0%

Tick Mark Legend:

X = Represents a DWSD Accounting Finding pertaining to this location's imprest cash fund.

Blank = No finding for this location or Not applicable.

CRITERIA:

- (A) Periodic audits of imprest cash funds must be conducted by supervisors or accounting personnel other than the person handling the fund. At a minimum, these internal audits must be made once every three months.
- (B) All checking accounts must be reconciled with the bank statements monthly.
- (C) Uncashed checks outstanding for more than six months will be put on stop payment, the amount added back to the checkbook balance, removed from future reconciliations, placed on the unclaimed roll and the money transferred back to the Finance Treasury Division.
- (D) At all times, the imprest cash fund must agree with the total amount authorized. In addition, good accounting practice is to maintain a total balance in a general ledger account with the exact same amount detailed in a related subsidiary ledger.
- (E) The Imprest Cash Manual states that all imprest cash funds must not be commingled with private funds or with other departmental funds.
- (F) All documents supporting imprest cash purchases must show the date paid, be signed by the employee making the purchase, and clearly indicate the month in which the original purchase was made.
- (G) A procedure from the Finance Department requires that all imprest cash reimbursement request must be made within thirty-days from the end of the month in which the original purchase was made.
- (H) A procedure from the Finance Department requires that monthly bank reconciliations are completed and then submitted to the Treasury Division no later than 45 days after the bank statement date.

Overview of Findings

Non-Compliance of the Finance Department

CRITERIA/ LOCATION IMPREST CASH FUND		Finance Directive	Imprest Cash Manual			Internal Control		
		Approved Improper Use of Imprest Cash Funds	Authorized Amount Did Not Agree With Records	Recorded Custodians Were Not the Actual Custodians	Authorized Check Signatories Did Not Agree With Records	Did Not Provide Imprest Cash Manual to Custodians	Records Did Not Agree with General Ledger	Did Not Follow-up on Reported Overages or Shortages
		(A)	(B)	(C)	(D)	(E)	(F)	(G)
1	INDUSTRIAL WASTE CONTROL					X		X
2	WASTEWATER TREATMENT PLANT		X	X	X	X		X
3	MATERIALS MANAGEMENT			X		X		
4	WATER WORKS PARK PLANT			X		X		X
5	METER OPERATIONS				X	X		X
6	CENTRAL YARD/MAINT & REPAIR			X		X	X	X
7	FIELD ENGINEERING					X		X
8	LAKE HURON WATER PLANT					X		
9	MECHANICAL MAINTENANCE DIV				X	X		
10	NORTHEAST WATER PLANT					X		X
11	SOUTHWEST WATER PLANT				X	X		X
12	SPRINGWELLS					X		
13	EASTSIDE CENTER/CASH RECEIVING					X		
14	WESTSIDE CENTER/CASH RECEIVING		X			X	X	
15	CUSTOMER REFUND					X		X
16	MOB /ACCOUNTING CASH RECEIVING	X	X	X	X	X		X
DWSD'S Finance						X		
Number of funds with infraction		1	3	5	5	17	2	10
Percent of funds with infraction		5.9%	17.6%	29.4%	29.4%	100.0%	11.8%	58.8%

Tick Mark Legend:

X = Represents a Finance Department Finding pertaining to this location's imprest cash fund.

Blank = No finding for this location or Not applicable

CRITERIA:

- (A) The guidelines for the purchase of food and refreshments require that the expenditure is for public or governmental purposes that service the entire community and not the welfare of a specific individual or class or persons; the cost of dinner is limited to \$23.00; and authorization requests be submitted no later than five (5) business days prior to the date for which funds are being requested.
- (B) At all times, the imprest cash fund must agree with the total amount authorized. In addition, good accounting practice is to maintain a total balance in a general ledger account with the exact same amount detailed in a related subsidiary ledger.
- (C) Good accounting practice requires that proper records be maintained.
- (D) All requests for changes of authorized signatories must be made in writing to Finance. The Finance Department is responsible for all financial transactions of the City and should maintain appropriate records.
- (E) The Finance Department must insure that itself, along with all departments are knowledgeable of and adhere to the policies and procedures in the Finance Directives and the Imprest Cash Manual. The duties of the Finance Department include prescribing the form and manner of keeping accounts in all departments of the City.
- (F) The purpose of the year-end closing exhibits is to ensure that financial data is correctly recorded in the financial records of the City. This purpose can be accomplished only if the information is reviewed and verified by the Finance Department. The Finance Department is responsible for maintaining the books showing the financial condition of the City.
- (G)



March 23, 2009

Attachment A

Loren E. Monroe, Auditor General
Office of the Auditor General
2 Woodward Avenue
Coleman A, Young Municipal Center, Room 208
Detroit, Michigan 48226

Dear Mr. Monroe:

The following presents the Detroit Water and Sewerage Department's response for the indicated finding and related recommendations(s) in the audit of the Detroit Water and Sewerage Department Imprest Cash July 2006 – September 2008, as prepared by the Office of the Auditor General:

Finding No. 1: Non-Compliance with the Imprest Cash Manual and Finance Department Procedure.

Department's Response:

Base on our review the of the above audit finding and recommendation related to non-compliance with the Imprest Cash Manual and Finance Department procedures, the department will implement procedures to ensure all custodians are in compliance. DWSD will also consult with the Finance Department to resolve all overages, shortage, and non-vouchered items. The DWSD Accounting Division and all Custodians have received copies of the updated Imprest Cash Manual to facilitate compliance with the administration of imprest cash funds.

Finding No. 2: Lack of Appropriate Internal Controls

Department's Response:

The department will review the current policies for safeguarding funds with each custodian and implement the appropriate controls. Additionally the department is conferring with the City Law Department and Human Resources to determine if the fees paid related to recovering the impounded vehicle cab be recovered from the employee.

Finding No. 3: DWSD's Accounting Division Did Not Fully Comply with the Imprest Cash Manual and Finance Department Procedures.

Department's Response:

DWSD's Accounting Division current policy is to perform bi-monthly reconciliation and audits of all imprest cash accounts. The past procedures has been to maintain the reconciliation document on file in the Accounting Division and submit year-end reports to the Finance Department as part of the annual audit. The department currently submits monthly reconciliations of bank statement to City Treasurer for each of our 31 primary bank accounts, and will implement the procedure for imprest cash accounts.

The DWSD Accounting Division and all custodians have received copies of the new imprest cash manual and will implement controls to ensure compliance. DWSD's Accounting Division will work with the Finance Department to resolve all findings of non-compliance.

Finding No. 4: The Size and use of the Main Office Imprest Cash Fund in not Appropriate

Department's Response:

The Main Office Imprest Cash Fund services all DWSD divisions located in the Water Board Building, the Engineering Division, which is located in the Julius Madison Building in downtown Detroit, and the tellers' located in the Main Office Payment Center. The department will perform a review of the fund's activity to determine if a reduction in the authorized balance is appropriate. Additionally, the department's accounting division and the fund's custodian will consult with the Finance Department to resolve all non-compliance issues.

Sincerely

A handwritten signature in black ink, appearing to read "Pamela Turner". The signature is fluid and cursive, with a long horizontal stroke at the end.

Pamela Turner
Interim Director



CITY OF DETROIT
FINANCE DEPARTMENT
ADMINISTRATION

MUNICIPAL CENTER
2 WOODWARD AVENUE, SUITE 1200
DETROIT, MICHIGAN 48226
PHONE 313•224•3491
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Attachment B

April 8, 2009

Loren E. Monroe, Auditor General
Office of the Auditor General
2 Woodward Avenue
Coleman A. Young Municipal Center, Room 208
Detroit, Michigan 48226

Dear Mr. Monroe:

The following presents the Finance Department's response for the indicated finding and related recommendation in the July 2006 – September 2008 audit of the Detroit Water and Sewerage Department's Imprest Cash fund, as prepared by the Office of the Auditor General. Our responses include the actions taken or to be taken regarding the recommendation and the implementation dates or the targeted implementation dates for those actions.

Finding Related to Other Departments No. 1. The Finance Department Did Not Fully Comply With Its Own Policies and Procedures

Department's Response:

The Finance Department agrees with the Auditor General's finding and recommendation. As a result, the Finance Department will comply with Finance Directive #145 "Guidelines for the Purchase of Food and Refreshments". The Finance Department should not have approved the subject events as part of a Food and Refreshments purchase, when the costs were not in compliance with Food and Refreshments guidelines. It should be noted that the Finance Department has not approved subsequent requests for the purchase of food and refreshments from DWSD that were outside the guidelines of Finance Directive #145. The Finance Department will comply with Finance Directive #145 effective immediately.

In addition, regarding lack of oversight on Imprest Cash overages and shortages; the Finance Department will investigate and consult with departments to a resolution when overages and shortages occur within a departments Imprest Cash fund, this will be done immediately.

Sincerely,

Joseph L. Harris
Chief Financial Officer

JLH:VR:vr

Cc: Vance Russell

